

BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

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In the Matter of

Federal-State Joint Board on  
Universal Service

CC Docket No. 96-45

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

COMMENTS  
of the  
GENERAL SERVICES ADMINISTRATION

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## Summary

When the Commission prescribed a forward-looking high-cost support mechanism for non-rural carriers, it also adopted an interim hold-harmless provision to protect consumers and carriers in high-cost areas during the shift to the new procedure. The hold-harmless provision states that any carrier's support will be no less per-line than that provided before the forward-looking cost methodology was adopted. In these Comments, GSA addresses proposals by the Federal-State Joint Board on Universal Service for phasing out this hold-harmless mechanism.

The interim hold-harmless provision encompasses both Long-Term Support ("LTS") and high-cost support under Part 36 of the Commission's rules. With respect to LTS, the Joint Board recommends that support be continued under the current rules until the Commission considers high-cost reform for rural carriers and interstate access charge reform for rate-of-return carriers.

GSA concurs with the Joint Board's recommendation because the record demonstrates that this provision is necessary to maintain stability in per-line access charges for several carriers until the requisite reforms are implemented. However, since the provision entails substantial implicit subsidies, GSA recommends continuation only if the Commission establishes and follows a definite and reasonably accelerated schedule for high-cost and access charge reform.

Concerning payments under Part 36 of the Commission's rules, the Joint Board recommends phase-down through reductions of \$1.00 annually in each recipient's monthly per-line support effective on the first of each year over the next few years. GSA also concurs with this recommendation by the Joint Board. Like LTS, this hold-harmless mechanism also constitutes an implicit subsidy that should be eliminated as soon as feasible. The Joint Board's transitional proposal ensures that no state jurisdiction will be faced with disruptive reductions in interstate support for an individual study area.

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**

In the Matter of

Federal–State Joint Board on  
Universal Service

CC Docket No. 96–45

**COMMENTS  
of the  
GENERAL SERVICES ADMINISTRATION**

The General Services Administration (“GSA”) submits these Comments on behalf of the customer interests of all Federal Executive Agencies (“FEAs”) on the Public Notice (“Notice”) released on July 11, 2000. The Notice seeks comments and replies on issues concerning the interstate high–cost support mechanism for non–rural carriers.

**I. INTRODUCTION**

Pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 481(a)(4), GSA is vested with the responsibility to represent the customer interests of the FEAs before Federal and state regulatory agencies. From their perspective as end users, the FEAs have consistently supported the Commission’s efforts to bring the benefits of competitive markets to consumers of all telecommunications services.

In the *Ninth Report and Order* in this proceeding, the Commission adopted a forward–looking high–cost support mechanism for non–rural carriers to become

effective on January 1, 2000.<sup>1</sup> The Commission also adopted an interim hold-harmless provision as a “transitional” means to protect consumers in high-cost areas during the shift to forward-looking support.<sup>2</sup> This provision ensures that the amount of high-cost support to a non-rural carrier will be no less, on a per-line basis, than the support provided before the forward-looking cost approach was adopted.<sup>3</sup>

On June 30, 2000, the Commission released a *Recommended Decision* containing several recommendations by the Federal-State Joint Board on Universal Service (“Joint Board”) for phasing out the hold-harmless provision.<sup>4</sup> On July 12, 2000, the Common Carrier Bureau released the instant Notice seeking the views of parties on the Joint Board’s recommendations.

The FEAs have a vital interest in universal service because the ability to communicate with all members of the public is necessary to perform the government’s work. Therefore, to set forth its positions and recommendations concerning universal service, GSA has participated in this proceeding by filing comments on eleven occasions since April 1996.<sup>5</sup> As a continuation of this process, GSA presents its conclusions and recommendations on the proposals contained in the *Recommended Decision*.

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<sup>1</sup> Report and Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20432, November 2, 1999 (“*Ninth Report and Order*”).

<sup>2</sup> *Id.*

<sup>3</sup> Recommended Decision released June 30, 2000 (“*Recommended Decision*”), para. 1.

<sup>4</sup> *Id.*

<sup>5</sup> *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Comments of GSA, April 12, 1996; Reply Comments of GSA, May 7, 1996; Comments of GSA, August 2, 1996; Comments of GSA, December 19, 1996; and Reply Comments of GSA, January 10, 1997; Comments of GSA, December 23, 1998; and Reply Comments of GSA, January 13, 1999; Comments of GSA, July 23, 1999; and Reply Comments of GSA, August 6, 1999; Comments of GSA, November 12, 1999; and Reply Comments of GSA, December 3, 1999.

## **II. THE COMMISSION SHOULD CONTINUE LONG-TERM SUPPORT UNDER THE INTERIM RULES UNTIL ADOPTING REFORMS FOR RURAL AND RATE-OF-RETURN CARRIERS.**

The interim hold-harmless provision encompasses two preexisting support mechanisms: (1) Long-Term Support (“LTS”); and (2) high-cost support under Part 36 of the Commission’s rules. With respect to LTS, the Joint Board recommends that support be maintained under the current rules until the Commission considers high-cost reform for rural carriers and interstate access charge reform for rate-of-return carriers.<sup>6</sup>

GSA concurs with the Joint Board’s recommendation to maintain the interim hold-harmless provision until it has adopted reforms for the recipients. However, GSA’s concurrence is dependent upon the Commission setting a schedule for completing the reforms within a reasonable period of time, such as 18 months. Moreover, GSA believes that if the reforms are not substantially completed within such a prescribed period, the interim hold-harmless provision should nevertheless expire.

The LTS program is designed to ensure reasonable comparability of interstate access charges among local exchange carriers (“LECs”) by reducing the common carrier line (“CCL”) charges of rate-of-return LECs that participate in the National Exchange Carrier Association (“NECA”) common line pool.<sup>7</sup> Previously, all incumbent LECs pooled their interstate-allocated loop costs to set a nationwide CCL charge to be paid by interexchange carriers (“IXCs”).<sup>8</sup> When individual LECs were permitted to leave the pool in 1989, the departing LECs — mostly larger, lower-cost carriers —

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<sup>6</sup> Notice, para. 1.

<sup>7</sup> *Recommended Decision*, para. 5.

<sup>8</sup> *Id.*

were required to make LTS payments to prevent CCL charges for the remaining LECs from rising significantly above the national average.<sup>9</sup>

The LTS payments for all carriers total about \$478 million a year.<sup>10</sup> The majority of this amount, \$381 million, is paid to rural carriers.<sup>11</sup> In fact, only three non-rural carriers receive LTS: Roseville Telephone Co. in California, North State Telephone Co. in North Carolina, and the Puerto Rico Telephone Co.<sup>12</sup> Each of these carriers is under rate-of-return regulation.

The Commission recently revised the procedure for funding LTS. Previously, only incumbent LECs outside the NECA pool were required to make LTS payments.<sup>13</sup> Last year, the Commission broadened the funding base to include all providers of interstate telecommunications services, making the program more equitable among carriers.<sup>14</sup> Nevertheless, in spite this change, LTS payments are a substantial implicit subsidy of a relatively small number of incumbent LECs.

Subsidies are antithetical to an open competitive marketplace. They should be eliminated, or phased out as quickly as possible, absent a compelling economic justification for continuation. In the present circumstances, however, there is sound justification for continuation, but only until the Commission takes compensating action by implementing other changes in its rules.

The hold-harmless provision has a direct impact only on the three non-rural carriers listed above. However, for these carriers, there is no substitute support

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<sup>9</sup> *Id.*

<sup>10</sup> *Id.*, para. 6.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*, para. 5, n. 13.

<sup>14</sup> *Id.*

mechanism, so that these carriers would suffer a major reduction in revenue if the hold-harmless mechanism were removed at this time.<sup>15</sup> Thus, GSA concurs with the Joint Board that the provision should be continued pending access charge reform for LECs under rate-of-return regulation.

Although the hold-harmless provision has a direct impact only on the revenues of non-rural carriers, there is also justification for deferring phase-down of the provision until high-cost reforms are prescribed for rural carriers. As the Common Carrier Bureau explains, if LTS were phased down for the three eligible non-rural carriers without a corresponding reduction in costs, the CCL rate for all participants in the NECA pool would increase.<sup>16</sup> Indeed, according to NECA, the total loss of LTS would cause the NECA rate to increase by 42 percent.<sup>17</sup> An increase of this magnitude would lead to large disparities in access charges among rural and non-rural LECs.

To help maintain stability in carriers' per-line access charges and revenues, GSA recommends that the Commission continue the interim hold-harmless provision as proposed by the Joint Board. However, since the provision entails substantial implicit subsidies, GSA recommends continuation only if the Commission establishes and follows a definite and reasonably accelerated schedule for high-cost and access charge reform. In this way the Commission will be providing an additional incentive to complete revisions in the rules concerning high cost support and access charges that are vital to ensure that the benefits of competition also accrue to users outside of the more densely populated areas served predominately by LECs under price cap regulation.

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<sup>15</sup> *Id.*, para. 8.

<sup>16</sup> *Id.*, para. 9.

<sup>17</sup> *Id.*



**III. HIGH-COST SUPPORT UNDER PART 36 OF THE RULES SHOULD BE PHASED OUT AS RECOMMENDED BY THE JOINT BOARD.**

The second mechanism for providing support to non-rural carriers serving areas with higher than average access costs is specified in Part 36 of the Commission's rules. This procedure provides LECs with a variable percentage of their total unseparated loop costs depending on the carrier's total number of working loops and the extent to which the carrier's weighted average cost for local loops exceeds the national average.<sup>18</sup>

Concerning this component, the Joint Board recommends that support be phased down through annual cuts of \$1.00 in each recipient's monthly per-line support.<sup>19</sup> Under this plan, support would be eliminated for all carriers receiving support of less than \$1.00 monthly per line, which is the majority of carriers, by January 1, 2001.<sup>20</sup> Successive reductions of \$1.00 monthly per-line would be effective on the first of each subsequent year, until January 1, 2003, when only two carriers should be receiving any high-cost support.<sup>21</sup> Then, the Commission would thoroughly review the entire plan.<sup>22</sup>

GSA concurs with the Joint Board's recommendation to phase down the support specified in Part 36 of the rules. Like LTS, this hold-harmless provision also constitutes an implicit subsidy, which should be eliminated as soon as feasible. Although the proposed phase-out schedule may appear somewhat protracted, 13 of the 18 recipients of this support now receive less than \$1.00 monthly per-line, so that

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<sup>18</sup> *Id.*, para .1 and n. 4.

<sup>19</sup> *Id.*, para. 13.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

all support would be eliminated for the great majority of carriers in less than a year, and for four additional carriers by January 1, 2002.

In previous comments, GSA supported an interim hold-harmless provision to help effect a smooth transition to the forward-looking support mechanism.<sup>23</sup> However, GSA concurs with the finding in the *Ninth Report and Order* that “the hold-harmless provision should not be a perpetual entitlement, and should be phased out as carriers and states adapt to the new forward-looking mechanism.”<sup>24</sup>

Unlike LTS, the Part 36 interim support for non-rural carriers is decoupled from the support mechanism for rural LECs. Thus, there is no argument that the Commission should defer the phase-down process for Part 36 support to non-rural LECs until beginning high-cost reform for rural carriers. Moreover, under the approach endorsed by the Joint Board, the average monthly, per-line support will be cut by no more than \$1.00 per year for any carrier, so that states will not be faced with disruptive changes in interstate support for any study area. Therefore, to begin eliminating subsidies in an orderly and responsible way, GSA recommends that the Joint Board’s recommendation for Part 36 high-cost support be adopted.

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<sup>23</sup> Reply Comments of GSA, January 13, 1999, p. 14.

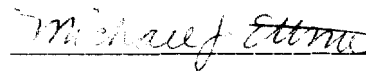
<sup>24</sup> 14 FCC Rcd 20432 at 20478-79.

#### IV. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Comments.

Respectfully submitted,

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August 14, 2000

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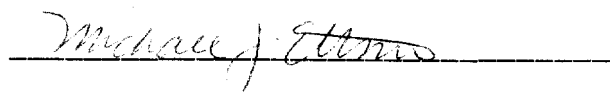
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